

# Town of Milton

115 Federal St  
Milton, DE 19968



[www.ci.milton.de.us](http://www.ci.milton.de.us)

Phone: 302-684-4110

Fax: 302-684-8999

December 3, 2012

## **TOWN MANAGER REPORT**

The following report is provided with respect to a Council request for more information related to a Capital Improvements Plan. It would properly be viewed as supplemental to the Town Manager's Draft 2013 Budget and the 2012 FY Annual Report. This report is also complimented by the 2010 US Environmental Protection Agency's *Clean Water and Safe Drinking Water Infrastructure Sustainability Policy* (available at [water.epa.gov](http://water.epa.gov)).

The Town Manager's Draft 2013 Budget included the following:

### Realty Transfer Tax

*Title 22 of the Delaware Code empowers municipalities with the authority to collect a tax on all transfers of real property – not to exceed 1 ½% of the sale price. Funds realized through this tax and interest shall be segregated and used solely for the purpose of capital and operating costs of public safety, economic development, public works, capital improvements and debt reduction.*



*Budgeted expenses for qualified services in 2012 are as follows: Public Safety – \$785,094, Economic Development - \$1,000, Public Works & Capital Improvements - \$86,804. The only debt is for water system improvements. This is paid through fees for water service.*

*Revenue from Realty Transfer tax and interest in 2012 is budgeted at \$165,000. For management purposes, this category has been included in the Operating Budget. Funds, however, are segregated as directed in Section 1601(c) of Title 22 of the Delaware Code.*

### A Separate Capital Improvements Budget

It is the practice of most Delaware municipalities to adopt a separate Capital Improvements Plan/Budget. This creates a “bright line” that is easily discerned by both auditors and the public. That line divides the “restricted” revenue uses from the “unrestricted” revenue uses.

It has not been the practice of the Town of Milton to do this. The adopted budget combined both operating and capital expenditures on a single spreadsheet. The intent of Council to designate qualifying “Capital Expenditure” items is clear from the name given to budget line items, though.

The Mayor and Council may consider adopting a separate capital improvements budget.

A policy of segregating items that qualify for funding from restricted sources would be enhanced by adopting a narrative to the budget, too. An example of this narrative was provided with the Town Manager's 2013 Draft Budget. A commitment to funding the incremental cost of budgeting for capital improvements would be explained in the narrative. The vehicle for supporting the Capital Improvements Plan (CIP) is a “sinking fund”.

### Saving for Capital Improvement

The Town Manager's Draft 2013 Budget also included the following:

*There is a \$3 per quarter increase in the quarterly "availability" fee for water service. Revenue from this fee increase will be dedicated to either a "sinking fund" or future loan payments on capital improvements to the water system. Finally, a proposal for a \$20 park reservation permit is included. It is estimated that this will raise approximately \$1,000 per year for maintenance and capital improvements to the park and marina.*

These modest proposals received the benefit of consideration, but were not adopted.

### A Lesson Learned

In 2012, Governor Markell announced that municipal electric rates were discouraging economic development in the First State. This both surprised and dismayed the leadership of Delaware municipalities that were members of a cooperative producer/purchaser distribution authority called DEMEC. These towns included Milford, Seaford, Dover, Smyrna and Clayton.

Like Milton, most of these towns recorded expenses for operations without consideration for the support functions that they serve. "Street" staff regularly supported the electric department – as did the administrative staff. A closer review of support functions, including insurance and other "soft costs" revealed a negligible "profit" for municipal utilities.

This determination is supported by interviews with both elected officials and members of the City Managers Association of Delaware. The Governor's unpleasant surprise served as a valuable "lesson learned" for these towns. In similar fashion, the recent cost allocation of salaries, benefits and insurance to the Town of Milton Water Department has revealed that the department is *not* subsidizing unrelated town operations.



### Clean Water and Safe Drinking Water Infrastructure Sustainability Policy

As with the experience noted above, the impetus for change often comes from higher government authorities. Our municipal water service is regulated and, to a great degree, supported by the State of Delaware Department Office of Drinking Water (ODW). Grants and loans are often funded by the US Environmental Protection Agency. In 2010, the EPA released the *Clean Water and Safe Drinking Water Infrastructure Sustainability Policy*. This policy sets the standard by which the finances of towns will be measured when loan applications are made through the Office of Drinking Water.

In addition to properly allocating operating expenses to a utility, rates should recover the cost of periodic capital improvements. The best information currently available is the Asset Depreciation Schedule. In the 2008-09 fiscal year, the depreciation of assets in the Water Department was used to calculate a new rate for water use. The rate increase, however, was used to fund Police Department overtime expenses, rather than fund a savings account (sinking fund) for the replacement of these depreciated assets.

The Proprietary Fund (Water and Trash Departments) budget includes capital expenses each year. In the 2010-11 FY, there was an unplanned expense of \$10,416, though. This was for a replacement pump. The 2011 Asset Depreciation Schedule is included with this report so that any rate changes may be calculated with respect to a Capital Improvements Plan that includes replacement of these assets.

## General Fund Capital Improvements

### **2009-10 General Fund Capital Improvements**

<b>Description</b>	<b>Value</b>	<b>Notes</b>
Downtown Beautification	\$3,999	Classified as capital, but actually an operating expense
Edmunds Software	\$8,774	Classified as capital, but actually an operating expense
Code Book	\$1,662	Classified as capital, but actually an operating expense
Street Paving	\$55,656	From Municipal Street Aid Fund (MSAF) grant
Police Dept. Heating System	\$18,000	
Police Dept car #4	\$10,003	From Sussex County grant
Body Armor	\$2,900	From grant
Building Renovations	\$12,044	
Laptops & car camera	\$22,516	
Park Repairs	\$2,037	
Code Department truck	\$9,425	
Wagamons Lot 119 backfill	\$2,240	
Total		

### **2010-11 General Fund Capital Improvements**

<b>Description</b>	<b>Value</b>	<b>Notes</b>
Downtown Beautification	\$4,000	See above
Edmunds software	\$8,774	See above
Code book	\$1,195	See above
Admin computers	\$2,651	Most likely an operating expense
Street Repairs	\$5,000	From MSAF grant
Purchase of equip (Bobcat)	\$25,382	
Police Dept. radar equip	\$2,204	From Highway Safety grant
Total		

### **2011-12 General Fund Capital Improvements**

<b>Description</b>	<b>Value</b>	<b>Notes</b>
Downtown Beautification	\$2,009	See above
Edmunds software	\$7,568	See above
Code Book	\$4,834	See above
Check valve (drainage)	\$2,925	
Street lights	\$5,844	New lights in Shipbuilders
Paving	\$70,202	State Legislator grant
Total		

The total for each table above is left blank so that the Council may make the determination of what should be classified as an operating expense, as opposed to a capital expense.

General Fund Capital Improvements, continued

**Restricted Revenues**

<b>Description</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>
Realty Transfer Revenue	\$106,534	\$213,708	\$243,956
Municipal Street Aid*	\$42,251	\$63,798	\$63,263
Sussex County Police Grant	\$20,000	\$20,000	\$20,000
Total	\$106,534	\$297,506	\$327,219

The operating expense for street lighting (electric) is a permitted use of Municipal Street Aid funds. This expense is approximately \$49,000 per year.

The list of physical assets and the depreciation value for each is attached (for Council). Detail regarding assets such as sidewalks is lacking, but can be added. Please note that assets valued at less than \$5,000, like personal computers, are not listed. A Capital Improvements Plan should consider the replacement cost of these physical assets. It may also contemplate infrastructure improvement goals.

As noted on the first page, public safety operating costs are qualified expenses for Realty Transfer Tax restricted revenue. The degree to which restricted revenue is allocated to the Capital Improvements Plan, then, is a policy decision for the Mayor and Council to make. A reduction in operating expenses would make this method of building reserves more attainable.

Setting aside any surplus from an unanticipated revenue source or expenditure reduction is another option that could be adopted as a policy measure. The adoption of town policies that are more restrictive than those given by a granting authority is a third option.

Finally, the establishment of fees or the increase of rates for certain services could be justified by correlating the amount of the fee/rate to the value listed in the depreciation schedule. In addition to the 2008-09 water rate example, there is the asset listing for the marina, boat slip and bulkheads.

It is strongly recommended that the Operating and Capital Improvement budgets for both the General and Proprietary funds be accompanied with the narrative referenced on the first page. The narrative would explain the policies adopted and establish a greater degree of accountability between the town government and the public that it serves.

This concludes the Capital Improvements Plan report that was requested in November. It should serve as a starting point for discussion among the Mayor and Council of the Town of Milton.

Respectfully submitted,

Wilmer E. Abbott, IV, MPA  
Town Manager